First Quarter Financial Report 2012-13

For the period ended June 30, 2012

Farm Credit Canada
Advancing the business of agriculture

Canada

Farm Credit Canada

Headquartered in Regina, Saskatchewan, Farm Credit Canada (FCC) is a financially self-sustaining federal Crown corporation reporting to Parliament through the Minister of Agriculture and Agri-Food. We serve Canadian agriculture by providing financing and other services to more than 100,000 primary producers, value-added operators, suppliers and processors along the agriculture value chain. Operating out of 100 offices located primarily in rural communities, our more than 1,500 employees are passionate about the business of agriculture. Every year, FCC provides learning events to over 10,000 participants and knowledge publications to more than 100,000 subscribers.

Contact Corporate Communication at communications@fcc-fac.ca for more information.

First Quarter Financial Report 2012-13
For the period ended June 30, 2012

This report was prepared in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and should be read in conjunction with disclosures and information contained in FCC's annual report and corporate plan summary.[1]

Financial results

FCC is committed to fiscal prudence and transparency. This document contains the corporation's unaudited financial results for the first quarter, which ended June 30, 2012. The corporation is on track to meet the performance measures for the current fiscal year as outlined in the Corporate Plan Summary for 2012-17.

Loan portfolio

FCC experienced overall growth in loans receivable of $1.0 billion from March 31, 2012, bringing its loan portfolio to $24.2 billion at June 30, 2012. Loan portfolio growth of 4.5% for the three months ended June 30, 2012, is higher than the loan portfolio growth of 3.7% for the first three months of the prior fiscal year.

The rate of loan portfolio growth for the three-month period ended June 30, 2012, increased over the comparable period in 2011-12 due to higher net disbursement levels. Net disbursements for the three months ended June 30, 2012, were $2.5 billion, an increase of $422.1 million, or 20.6%, over the three months ended June 30, 2011. Growth from the increased level of net disbursements was partially offset by higher principal payments.

Profitability

($ millions)

	Three months ended	
	June 30, 2012	June 30, 2011
Net interest income	**$ 207.9**	$ 194.9
Provision for credit losses	**(24.2)**	59.0
Insurance and other income	**3.6**	4.9
Administration expenses	**(76.0)**	(68.4)
Fair value adjustment	**(1.0)**	(2.2)
Net income	**$ 110.3**	$ 188.2

In the first quarter of 2012-13, net income was $77.9 million lower than the same quarter in 2011-12. This is mainly due an increase in the provision for credit losses of $83.2 million and an increase in administration expenses of $7.6 million, partially offset by higher net interest income of $13.0 million.

The provision for credit losses for the three-month period ended June 30, 2012, has increased significantly over the prior year. In the first quarter of 2011, there was a substantial improvement in portfolio health that resulted in a decrease in the required allowance for credit losses and a negative provision. This year, the provision is primarily a result of portfolio growth experienced during the quarter.

[1] These documents are available at www.fcc-fac.ca/About Us/Corporate Profile.

Net interest income for the three-month period ended June 30, 2012 has increased due to increased loan portfolio volume, partially offset by lower margins. The net interest margin for the three-month period ended June 30, 2012, decreased to 3.42% from 3.53% for the comparable period in 2011. The decrease in net interest margin is mainly due to the low interest rate environment which has compressed the interest rate spread.

The increase in administration expenses year-over-year is mainly attributable to personnel expenses due to pension costs. Also contributing were increases in professional service fees and other administration expenses.

Capital management

FCC's debt-to-equity ratio increased from 7.1:1 at March 31, 2012, to 7.2:1 at June 30, 2012. The increase is due to increased borrowing requirements to fund the higher loans receivable balance.

Cash flow

Cash and cash equivalents at June 30, 2012, increased slightly to $780.3 million from $771.9 million at June 30, 2011. For the three-month period ended June 30, 2012, cash of $899.0 million and $237.8 million was used in operating activities and investing activities respectively, and $1.0 billion was provided by financing activities.

Outlook against corporate plan summary

FCC is projected to meet all year-end financial targets as outlined in the Corporate Plan Summary for 2012-17.

Measure	Outlook
Net income	On track
Return on equity	On track
Efficiency ratio	On track
Debt-to-equity ratio	On track
Loan portfolio growth	On track

Enterprise risk management

FCC has adopted an enterprise risk management framework to manage risks efficiently, consistently and in a coordinated manner. The corporation is exposed to five main categories of risk: credit, market, operational, strategic and reputation.

FCC's risk assessment process – which includes risk identification, measurement and aggregation – is carried out as an ongoing process for credit and market risks. All risks are assessed annually during the strategic planning process and make up the corporation's risk profile. Executive Management Team members are responsible for developing and implementing risk management strategies and action plans to mitigate the corporation's top risks.

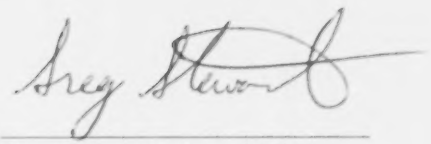
The FCC Board of Directors oversees the corporation's risk governance framework, which is supported by policies and committees that guide corporate decision-making.

FCC regularly monitors its business environment for changes that could affect its ability to achieve its stated objectives. No new risks were identified in the first quarter of 2012-13.

Statement of management responsibility

Management is responsible for the preparation and fair presentation of these consolidated quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations, and for such internal controls as management determines is necessary to enable the preparation of consolidated quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly report is consistent, where appropriate, with the consolidated quarterly financial statements.

Based on our knowledge, these unaudited consolidated quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the consolidated quarterly financial statements.



Greg Stewart, P.Ag., C.Dir.
President and Chief Executive Officer

Rick Hoffman, CMA, MBA
Executive Vice-President and Chief Financial Officer

Regina, Canada
August 15, 2012

Condensed Consolidated Financial Statements
Consolidated Balance Sheet

(Unaudited)
(Thousands of Canadian dollars)

	June 30, 2012	March 31, 2012
Assets		
Cash and cash equivalents	$ 780,287	$ 904,217
Temporary investments	309,504	83,813
Accounts receivable	11,442	16,356
Derivative financial assets	72,266	67,898
	1,173,499	1,072,284
Loans receivable – net (Notes 2 and 3)	23,591,932	22,580,309
Finance leases receivable – net	10,895	9,541
Venture capital investments	56,882	53,527
	23,659,709	22,643,377
Equipment and leasehold improvements	25,641	26,655
Computer software	40,525	40,091
Equipment under operating leases	33,101	28,331
Other assets	18,046	18,307
	117,313	113,384
Total assets	$ 24,950,521	$ 23,829,045
Liabilities		
Accounts payable and accrued liabilities	$ 64,088	$ 59,675
Derivative financial liabilities	45	84
	64,133	59,759
Borrowings (Note 4)		
Short-term debt	10,441,679	9,568,666
Long-term debt	10,897,345	10,772,729
	21,339,024	20,341,395
Transition loan liability	91,604	84,108
Retirement benefit liabilities	222,414	224,060
Other liabilities	12,216	11,550
	326,234	319,718
Total liabilities	21,729,391	20,720,872
Equity		
Contributed surplus	547,725	547,725
Retained earnings	2,451,179	2,340,813
Accumulated other comprehensive income	206,112	203,477
Equity attributable to shareholder of parent entity	3,205,016	3,092,015
Non-controlling interest in special purpose entity	16,114	16,158
	3,221,130	3,108,173
Total liabilities and equity	$ 24,950,521	$ 23,829,045

The accompanying notes are an integral part of the condensed consolidated financial statements.

Consolidated Statement of Operations

(Unaudited)
(Thousands of Canadian dollars)

	Three months ended June 30, 2012	June 30, 2011
Interest income	$ 272,443	$ 258,682
Interest expense	64,550	63,744
Net interest income	207,893	194,938
Provision for credit losses	24,185	(58,952)
Net interest income after provision for credit losses	183,708	253,890
Net insurance income	3,308	2,903
Other income	272	2,058
Net interest income and non-interest income	187,288	258,851
Administration expenses		
Salary expense	33,921	32,339
Benefits expense	13,950	10,301
Professional fees expense	8,485	7,044
Facilities, software and equipment expense	6,071	5,751
Amortization and depreciation expense	5,045	6,170
Travel and training expense	3,284	3,364
Marketing and promotion expense	1,090	950
Other expenses	4,186	2,495
Total administration expenses	76,032	68,414
Net income before fair value adjustment	111,256	190,437
Fair value adjustment	(968)	(2,245)
Net income	$ 110,288	$ 188,192
Net income (loss) attributable to:		
Shareholder of parent entity	$ 110,366	$ 188,214
Non-controlling interest in special purpose entity	(78)	(22)

The accompanying notes are an integral part of the condensed consolidated financial statements.

Consolidated Statement of Comprehensive Income

(Unaudited)
(Thousands of Canadian dollars)

	Three months ended June 30, 2012	June 30, 2011
Net income	**$ 110,288**	$ 188,192
Other comprehensive income		
Net gains on derivatives designated as cash flow hedges	**8,316**	13,675
Transfer of net realized gains on derivatives designated as cash flow hedges to net income	**(5,660)**	(5,301)
Change in net gains on derivatives designated as cash flow hedges	**2,656**	8,374
Net unrealized (losses) gains on available-for-sale financial assets	**(21)**	327
Total other comprehensive income	**$ 2,635**	$ 8,701
Total comprehensive income	**$ 112,923**	$ 196,893
Total comprehensive income (loss) attributable to:		
Shareholder of parent entity	**$ 113,001**	$ 196,915
Non-controlling interest in special purpose entity	**(78)**	(22)

The accompanying notes are an integral part of the condensed consolidated financial statements.

Consolidated Statement of Changes in Equity

(Unaudited)
(Thousands of Canadian dollars)

	Balance April 1, 2012	Net income	Other comprehensive income	Distributions to non-controlling interest	**Balance June 30, 2012**
Contributed surplus	$ 547,725	$ -	$ -	$ -	**$ 547,725**
Retained earnings	2,340,813	110,366	-	-	**2,451,179**
Net gains on derivatives designated as cash flow hedges	204,045	-	2,656	-	**206,701**
Net unrealized losses on available-for-sale financial assets	(568)	-	(21)	-	**(589)**
Total accumulated other comprehensive income	203,477	-	2,635	-	**206,112**
Total equity attributable to parent	3,092,015	110,366	2,635	-	**3,205,016**
Non-controlling interest in special purpose entity	16,158	(78)	-	34	**16,114**
Total	$ 3,108,173	$ 110,288	$ 2,635	$ 34	**$ 3,221,130**

(Unaudited)
(Thousands of Canadian dollars)

	Balance April 1, 2011	Net income	Other comprehensive income	Distributions to non-controlling interest	Balance June 30, 2011
Contributed surplus	$ 547,725	$ -	$ -	$ -	$ 547,725
Retained earnings	1,938,466	188,214	-	-	2,126,680
Net gains on derivatives designated as cash flow hedges	183,297	-	8,374	-	191,671
Net unrealized (losses) gains on available-for-sale financial assets	(1,493)	-	327	-	(1,166)
Total accumulated other comprehensive income	181,804	-	8,701	-	190,505
Total equity attributable to parent	2,667,995	188,214	8,701		2,864,910
Non-controlling interest in special purpose entity	13,376	(22)	-	707	14,061
Total	$ 2,681,371	$ 188,192	$ 8,701	$ 707	$ 2,878,971

The accompanying notes are an integral part of the condensed consolidated financial statements.

Consolidated Statement of Cash Flows

(Unaudited)
(Thousands of Canadian dollars)

	Three months ended	
	June 30, 2012	June 30, 2011
Operating activities		
Net income	**$ 110,366**	$ 188,214
Adjustments to determine net cash (used in) provided by operating activities:		
Net interest income	**(207,893)**	(194,945)
Unwind adjustment on impaired loans	**260**	401
Provision for credit losses	**24,185**	(58,952)
Fair value adjustment	**968**	2,245
Depreciation and amortization (1)	**(2,700)**	(1,130)
Other	**(1,589)**	54
Net cash outflow from loans receivable	**(1,054,081)**	(824,675)
Net cash outflow from finance leases receivable	**(1,213)**	(1,300)
Net change in other operating assets and liabilities	**19,776**	8,751
Interest received	**286,733**	273,165
Interest paid	**(73,786)**	(72,373)
Cash used in operating activities	**$ (898,974)**	$ (680,545)
Investing activities		
Net cash (outflow) inflow from temporary investments	**$ (225,439)**	$ 57,719
Acquisition of venture capital investments	**(2,907)**	(3,050)
Proceeds on disposal and repayment of venture capital investments	**7**	4,610
Purchase of equipment and leasehold improvements	**(1,612)**	(2,258)
Purchase of computer software	**(2,874)**	(2,339)
Purchase of equipment under operating leases	**(5,061)**	(4,347)
Disposal of real estate property held for sale	**100**	104
Cash (used in) provided by investing activities	**$ (237,786)**	$ 50,439
Financing activities		
Long-term debt issued	**$ 1,605,018**	$ 1,335,618
Long-term debt repaid	**(1,121,254)**	(1,662,694)
Short-term debt issued	**8,446,807**	8,726,778
Short-term debt repaid	**(7,918,151)**	(7,599,612)
Cash provided by financing activities	**$ 1,012,420**	$ 800,090
Change in cash and cash equivalents	**$ (124,340)**	$ 169,984
Cash and cash equivalents, beginning of period	**904,217**	601,840
Effects of exchange rate changes on the balances of cash held and due in foreign currencies	**410**	31
Cash and cash equivalents, end of period	**$ 780,287**	$ 771,855
Cash and cash equivalents are comprised of:		
Cash	**$ 67,949**	$ 75,466
Short-term investments	**712,338**	696,389

(1) Includes the depreciation of equipment and leasehold improvements and equipment under operating leases and the amortization of computer software. It also includes the amortization of accumulated other comprehensive income, bond premium or discount, deferred revenue fees and deferred initial direct leasing costs.

The accompanying notes are an integral part of the condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements (Unaudited)

1. Significant accounting policies

Basis of presentation

Condensed consolidated interim financial statements (interim financial statements) have been prepared in accordance with International Financial Reporting Standards (IFRS) and IAS 34 – Interim Financial Reporting.

These interim financial statements do not include all of the information required for complete annual financial statements and should be read in conjunction with the annual, audited financial statements for the year ended March 31, 2012.

The accounting policies adopted in the preparation of these interim financial statements are consistent with those followed in the annual, audited financial statements for the year ended March 31, 2012.

Unless otherwise stated, all dollar amounts presented in the Notes to the Condensed Consolidated Financial Statements are in thousands of Canadian dollars, which is the functional currency of the corporation.

Accounting standards issued but not yet effective

The corporation has reviewed the new standards, amendments and interpretations that have been issued by the International Accounting Standards Board (IASB) or the International Financial Reporting Interpretations Committee (IFRIC), but are not yet effective, and determined that the following may have an impact on the corporation. Management is assessing the impact of these standards and amendments on the corporation's financial statements and accounting policies.

Standard	Details	Annual periods commencing on or after
IFRS 7 – Financial Instruments: Disclosures	The amended standard was issued together with the amended IAS 32 - Financial Instruments: Presentation to enhance disclosures about the offsetting of financial assets and financial liabilities.	Jan. 1, 2015
IFRS 9 – Financial Instruments	The new standard provides requirements for classifying and measuring financial assets and liabilities. This standard is the first in a three-phase project in progress by the IASB to replace IAS 39 – Financial Instruments: Recognition and Measurement in its entirety. It is anticipated that this standard will result in a change in classification of the corporation's temporary investments from available for sale to fair value through profit and loss.	Jan. 1, 2015
IFRS 10 – Consolidated Financial Statements	The new standard replaces the consolidation requirements in IAS 27 – Consolidated and Separate Financial Statements and SIC-12 – Consolidation – Special Purpose Entities. It establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. No significant changes are anticipated as a result of this standard.	Jan. 1, 2013
IFRS 12 – Disclosure of Interests in Other Entities	The new standard establishes disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. It is anticipated that this standard will result in increased disclosure on venture capital investments.	Jan. 1, 2013
IFRS 13 – Fair Value Measurement	The new standard establishes new guidance on fair value measurement and disclosure requirements. It is anticipated that this standard will result in increased disclosure on fair value measurement.	Jan. 1, 2013
IAS 19 – Employee Benefits	The standard was amended to improve the recognition, presentation and disclosure of defined benefit plans. The amendments revised the calculation of finance costs that are included in net income. It is anticipated that finance costs will increase, offset by an increase in other comprehensive income.	Jan. 1, 2013
IAS 28 – Investments in Associates and Joint Ventures	The standard was reissued as Investments in Associates and Joint Ventures as a result of the new standards IFRS 10 – Consolidated Financial Statements, IFRS 11 – Joint Arrangements and IFRS 12 – Disclosure of Interests in Other Entities. No significant changes are anticipated as a result of this standard.	Jan. 1, 2013
IAS 32 – Financial Instruments: Presentation	The amended standard was issued together with the amended IFRS 7 – Financial Instruments: Disclosures to clarify the guidance on the offsetting of financial assets and financial liabilities.	Jan. 1, 2014

2. Loans receivable – net

($ thousands)

	Remaining term to maturity				
	Within 1 year	1 - 5 years	Over 5 years	June 30, 2012	March 31, 2012
Floating	$ 1,339,597	$ 13,316,099	$ 737,310	$ 15,393,006	$ 14,810,553
Fixed	1,131,102	5,624,413	1,845,736	8,601,251	8,129,614
Performing loans	2,470,699	18,940,512	2,583,046	23,994,257	22,940,167
Impaired loans				265,022	285,118
Deferred loan fees				(23,731)	(23,026)
Loans receivable – gross				24,235,548	23,202,259
Allowance for credit losses				(643,616)	(621,950)
Loans receivable – net				$ 23,591,932	$ 22,580,309

3. Allowance for credit losses – loans receivable

($ thousands)

	June 30, 2012	March 31, 2012
Individual allowance, beginning of year	$ 140,800	$ 157,734
Provision for credit losses	1,743	13,099
Losses covered under the Hog Industry Loan Loss Reserve Program	563	2,623
Unwind adjustment on impaired loans	260	535
Writeoffs	(6,263)	(36,074)
Recoveries	978	2,883
Individual allowance, end of year	$ 138,081	$ 140,800
Collective allowance, beginning of year	$ 481,150	$ 497,644
Provision for credit losses	22,422	(11,378)
Losses covered under the Hog Industry Loan Loss Reserve Program	2,195	(1,682)
Writeoffs	(276)	(3,608)
Recoveries	44	174
Collective allowance, end of year	$ 505,535	$ 481,150
Total allowance	$ 643,616	$ 621,950

4. Borrowings

Short-term debt

($ thousands)

	June 30, 2012	March 31, 2012
Government of Canada debt	$ 10,201,786	$ 9,223,172
Retail and institutional fixed-rate notes	132,067	238,994
Promissory notes	93,369	94,873
Cash collateral due to derivative counterparties	9,258	6,156
Structured notes	5,199	5,471
Total	$ 10,441,679	$ 9,568,666

Long-term debt

($ thousands)

	June 30, 2012	March 31, 2012
Government of Canada debt	$ 10,435,879	$ 10,205,227
Retail and institutional fixed-rate notes	461,217	567,280
Structured notes	249	222
Total	$ 10,897,345	$ 10,772,729

The corporation enters into borrowings with the Government of Canada through the Crown Borrowing Program. Interest accrued and incurred on these borrowings is recorded in borrowings and interest expense, respectively. The Government of Canada interest expense recorded to June 30, 2012, was $54.0 million (June 30, 2011 - $49.8 million).